

July 10, 2009

Congressional Committees

Subject: Overseas Contingency Operations: *Reported Obligations for the Department of Defense*

Since 2001, Congress has provided the Department of Defense (DOD) with \$888 billion in supplemental and annual appropriations, as of June 2009, primarily for Overseas Contingency Operations (OCO).<sup>1</sup> DOD's reported annual obligations<sup>2</sup> for OCO have shown a steady increase from about \$0.2 billion in fiscal year 2001 to about \$162.4 billion in fiscal year 2008. For fiscal year 2009 OCO, Congress provided DOD with about \$65.9 billion in the fiscal year 2009 DOD Appropriations Act and about \$80.0 billion in a supplemental appropriation enacted in June 2009. A total of \$59.6 billion has been obligated through the second quarter of fiscal year 2009 through March 2009. The United States' commitments to OCO will likely involve the continued investment of significant resources, requiring decision makers to consider difficult trade-offs as the nation faces an increasing long-range fiscal challenge. The magnitude of future costs will depend on several direct and indirect cost variables and, in some cases, decisions that have not yet been made. DOD's future costs will likely be affected by the pace and duration of operations, the types of facilities needed to support troops overseas, redeployment plans, and the amount of equipment to be repaired or replaced.<sup>3</sup>

DOD compiles and reports monthly and cumulative incremental obligations incurred to support OCO in a monthly report commonly called the Contingency Operations Status of Funds Report.<sup>4</sup> DOD leadership uses this report, along with other information, to advise Congress on the costs of the war and to formulate future OCO budget requests. DOD reports

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<sup>1</sup>After the terrorist attacks of September 11, 2001, the President announced a Global War on Terrorism, requiring the collective instruments of the entire federal government to counter the threat of terrorism. Overseas contingency operations include operations in Iraq and Afghanistan. These operations involve a wide variety of activities, such as combating insurgents, training the military forces of other nations, and conducting small-scale reconstruction and humanitarian relief projects. Starting with the fiscal year 2009 supplemental request in April 2009, the Administration now refers to funds for the wars in Iraq and Afghanistan as Overseas Contingency Operations funds instead of Global War on Terrorism funds.

<sup>2</sup>According to Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 1, "Definitions" (Dec. 2001), xvii, obligations are incurred through actions such as orders placed, contracts awarded, services received, or similar transactions made by federal agencies during a given period that will require payments during the same or a future period.

<sup>3</sup>For more information see GAO, *Securing, Stabilizing, and Rebuilding Iraq: Key Issues for Congressional Oversight*, [GAO-07-308SP](#) (Washington, D.C.: Jan. 9, 2007), and *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments*, [GAO-06-885T](#) (Washington, D.C.: July 18, 2006).

<sup>4</sup>This report replaces the Supplemental and Cost of War Execution Report.

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these obligations by appropriation, contingency operation,<sup>5</sup> and military service or defense agency. DOD has prepared monthly reports on the obligations incurred for its involvement in OCO since fiscal year 2001.<sup>6</sup>

Section 1221 of the National Defense Authorization Act for Fiscal Year 2006<sup>7</sup> requires us to submit quarterly updates to Congress on the costs of Operation Iraqi Freedom and Operation Enduring Freedom based on DOD's monthly cost-of-war reports. This report, which responds to this requirement, contains our analysis of DOD's reported obligations for overseas contingencies through March 2009. Specifically, we assessed (1) DOD's cumulative appropriations and reported obligations for military operations in support of overseas contingencies and (2) DOD's fiscal year 2009 reported obligations from October 2008 through March 2009, the latest data available for OCO by military service and appropriation account.

We have conducted a series of reviews examining funding and reported obligations for military operations in support of overseas contingencies. Our prior work<sup>8</sup> has found the data in DOD's monthly cost-of-war report to be of questionable reliability. Consequently, we are unable to ensure that DOD's reported obligations for OCO are complete, reliable, and accurate, and they therefore should be considered approximations. Based on this work, we have made a number of recommendations to the Secretary of Defense intended to improve the transparency and reliability of DOD's OCO obligations. For example we have recommended that DOD (1) revise the cost reporting guidance so that large amounts of reported obligations are not shown in "other" miscellaneous categories and (2) take steps to ensure that reported OCO obligations are reliable. In response, DOD is taking steps to improve OCO cost reporting. For example, DOD has modified its guidance to more clearly define some of the cost categories and is taking additional steps to strengthen the oversight and program management of the cost reporting. Specifically, DOD has taken steps to improve transparency by requiring components to analyze variances in reported obligations and to disclose reasons for significant changes, and to affirm that monthly reported OCO obligations provide a fair representation of ongoing activities. Furthermore, in February 2007, DOD established a Senior Steering Group including representatives from DOD, the Defense Finance and Accounting Service (DFAS), and the military services in an effort to standardize and improve the OCO cost-reporting process and to increase management attention to the process. DOD established an OCO Cost-of-War Project Management Office to monitor work performed by auditing agencies and to report possible solutions and improvements to the Senior Steering Group. DOD has started several initiatives to improve credibility, transparency, and timeliness. One of the initiatives is a quarterly validation of OCO obligation transactions at each of the DOD components. Another is the development of

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<sup>5</sup>DOD defines contingency operations to include small, medium, and large-scale campaign-level military operations, including support for peacekeeping operations, major humanitarian assistance efforts, noncombatant evacuation operations, and international disaster relief efforts.

<sup>6</sup>Department of Defense, *Financial Management Regulation*, 7000.14-R, vol. 12, ch. 23. This regulation generally establishes financial policy and procedures related to DOD contingency operations. Volume 6A, chapter 2, and volume 3, chapter 8, of the DOD *Financial Management Regulation* also include provisions to ensure the accuracy of cost reporting.

<sup>7</sup>Pub. L. No. 109-163, § 1221(c) (2006).

<sup>8</sup>For more information see GAO, *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs*, [GAO-05-882](#) (Washington, D.C.: Sept. 21, 2005); and *Global War on Terrorism: DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting*, [GAO-08-68](#) (Washington, D.C.: Nov. 6, 2007).

the Contingency Operations Reporting and Analysis Service system, which will allow the Department to move from a manual methodology of collecting cost data to extracting a portion of the data from various accounting systems. However, until all DOD efforts are more fully implemented, it is too soon to know the extent to which these changes will improve the reliability of DOD's cost reporting.

While establishing sound cost reporting procedures and oversight is clearly important, the reliability of the cost-of-war reports also depends on the quality of DOD's accounting data. Factors contributing to DOD's challenges in reporting reliable cost data include long-standing deficiencies in DOD's financial management systems. We are aware that DOD has efforts under way to improve these systems as well.

We have also made recommendations to improve transparency and fiscal responsibility related to funding the war on terrorism and to permit the Congress and the administration to establish priorities and make trade-offs among those priorities in defense funding. Specifically, we recommended that DOD (1) issue guidance defining what constitutes the "longer war against terror," identify what costs are related to that longer war, and build these costs into the base defense budget; (2) identify incremental costs of the ongoing OCO that can be moved into the base budget; and (3) in consultation with the Office of Management and Budget, consider limiting emergency funding requests to truly unforeseen or sudden events.<sup>9</sup> We will continue to review DOD's efforts to implement these recommendations as part of our follow-up work on OCO.

In March 2009 we reported that while DOD and the military services continue to take steps to improve the accuracy and reliability of some aspects of OCO reporting,<sup>10</sup> DOD lacks a sound approach for identifying cost of specific contingency operations, raising concerns about the reliability of reported information. We recommended that DOD (1) establish a methodology for determining what portion of OCO costs is attributable to Operation Iraqi Freedom versus Operation Enduring Freedom and (2) develop a plan and timetable for evaluating whether certain expenses are incremental and should continue to be funded outside of DOD's base budget. DOD agreed with the first recommendation and intends to strengthen guidance requiring an annual review of cost reporting. Regarding the second recommendation, DOD responded it will use refined criteria for developing the fiscal year 2009 Overseas Contingency Operations Supplemental Request and the fiscal year 2010 Overseas Contingency Operations Request. We are currently reviewing that criteria and the related funding request.

## **Scope and Methodology**

To conduct our work, we analyzed applicable annual and supplemental appropriations from fiscal year 2001 through fiscal year 2009 as of May 2009--the latest OCO funding provided and reported OCO obligations through March 2009--the latest OCO obligation data available. Specifically, we identified appropriated amounts primarily intended for OCO and reported OCO obligations for each operation, military service, and appropriation account.

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<sup>9</sup>GAO-08-68.

<sup>10</sup> For more information see GAO, Global War on Terrorism: DOD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom, [GAO-09-302](#) (Washington, D.C., Mar. 17, 2009).

We conducted our work from April 2009 to June 2009 in accordance with all sections of the GAO's Quality Control Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provides a reasonable basis for our findings and conclusions in this product.

## Summary

As of March 2009, Congress has appropriated a total of about \$888 billion primarily for OCO since 2001. Of that amount, about \$65.9 billion was appropriated in the fiscal year 2009 DOD Appropriations Act and about \$80 billion was appropriated in the June 2009 supplemental appropriation for a total of about \$145.9 billion for use in fiscal year 2009. DOD has reported obligations of about \$714.3 billion for OCO from fiscal year 2001 through fiscal year 2008 and for fiscal year 2009 (October 2008 through March 2009). The \$173.7 billion difference<sup>11</sup> between DOD's appropriations and reported obligations can generally be attributed to the remaining fiscal year 2009 appropriations; multiyear funding for procurement; military construction; and research, development, test, and evaluation from previous OCO-related appropriations<sup>12</sup> that have yet to be obligated; and obligations for classified and other items, which DOD considers to be non-OCO related, that are not reported in DOD's cost-of-war reports.<sup>13</sup> As part of our ongoing work, we are reviewing DOD's process for reporting its OCO-related obligations.

Figure 1 shows the increase in DOD's cumulative reported OCO obligations and cumulative OCO appropriations from fiscal year 2001 through fiscal year 2008 and through the second quarter of fiscal year 2009 (October 2008 through March 2009).

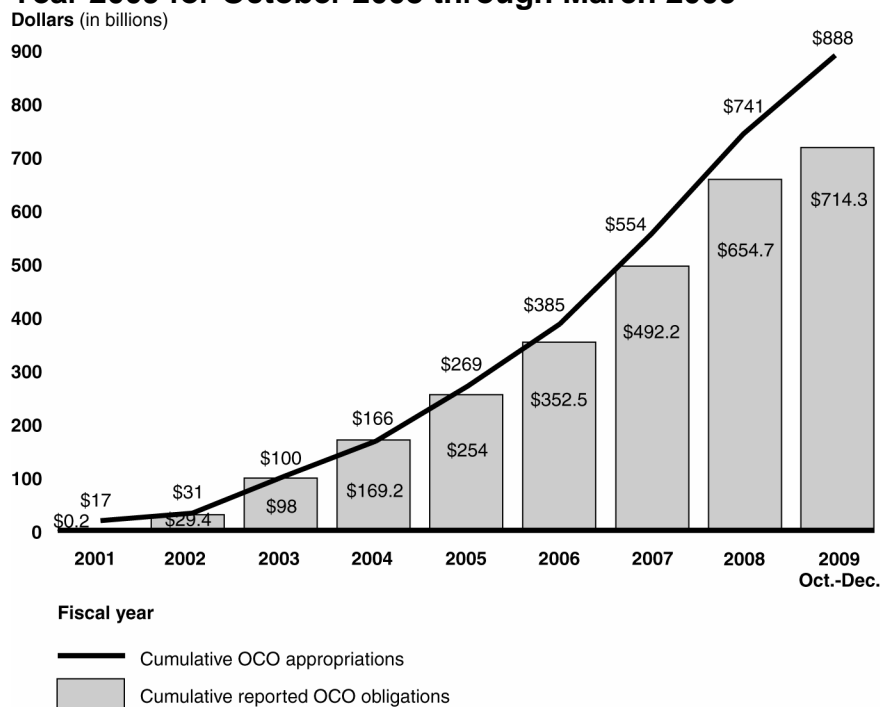
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<sup>11</sup>We calculated this difference by comparing available data on appropriations and reported obligations.

<sup>12</sup>Appropriations for military personnel and operation and maintenance are usually available for 1 year, while appropriations for research, development, test and evaluation are usually available for 2 years; procurement funds (with the exception of ship building funds, which are sometimes available longer) are usually available for 3 years; and military construction funds are usually available for 5 years.

<sup>13</sup> We have not reviewed DOD's determination of what appropriations should be considered non-overseas contingency operations.

**Figure 1: DOD's Cumulative Reported Overseas Contingency Operations Appropriations and Obligations for Fiscal Years 2001 through 2008 and for Fiscal Year 2009 for October 2008 through March 2009**



Source: GAO analysis of DOD and appropriations data.

Notes: Appropriations amounts reflect totals provided in supplemental and annual appropriations legislation. Reported OCO obligations include Operation Noble Eagle, Operation Enduring Freedom, and Operation Iraqi Freedom, and generally reflect costs reported in DOD's cost-of-war reports. However, the fiscal year 2002 and 2003 figures include about \$20.1 billion that according to DOD officials was war related but not reported in DOD's cost-of-war reports. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of OCO obligations.

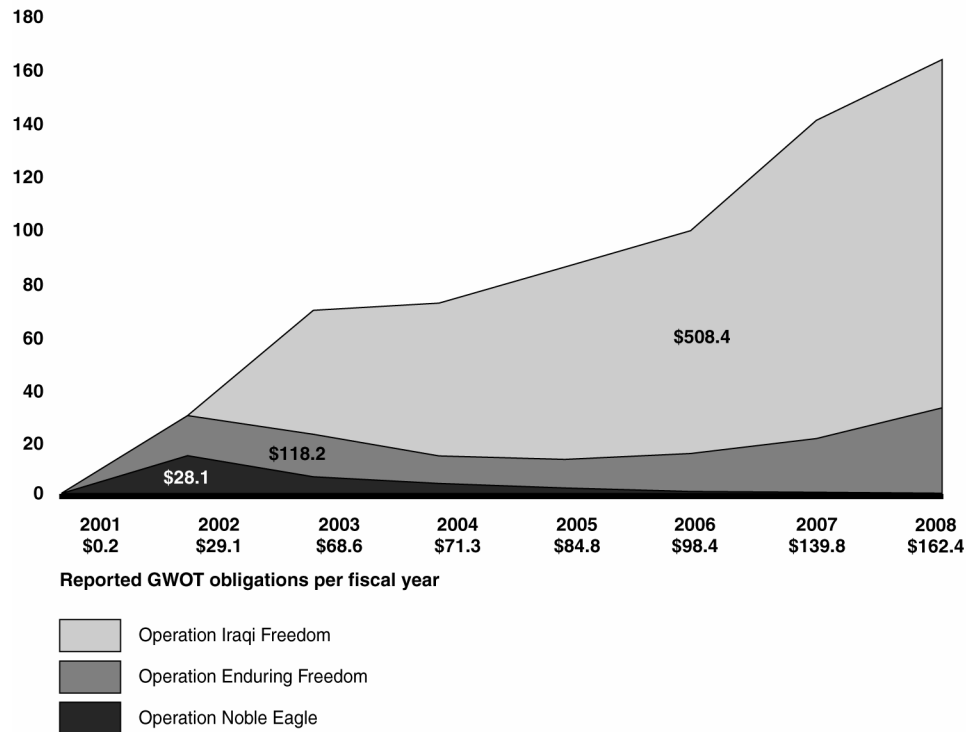
Of DOD's total cumulative reported obligations for OCO through March 2009 (about \$714.3 billion), about \$553.8 billion is for operations in and around Iraq as part of Operation Iraqi Freedom, and about \$132.4 billion is for operations in Afghanistan, the Horn of Africa, the Philippines, and elsewhere as part of Operation Enduring Freedom. The remainder of about \$28.2 billion is for operations in defense of the homeland as part of Operation Noble Eagle.

As figure 2 shows, DOD's reported obligations for Operation Iraqi Freedom have consistently increased each fiscal year since operations began. The increases in reported obligations for Operation Iraqi Freedom are in part due to continued costs for military personnel, such as military pay and allowances for mobilized reservists, and for rising operation and maintenance expenses, such as higher contract costs for housing, food, and services and higher fuel costs. In addition, the need to repair and replace equipment because of the harsh combat and environmental conditions in theater has further increased obligations for Operation Iraqi Freedom. In contrast, DOD's reported obligations for Operation Noble Eagle have consistently decreased since fiscal year 2003, largely because of the completion of repairs to the Pentagon and upgrades in security at military installations that were onetime costs, as well as a reduction in combat air patrols and in the number of reserve personnel guarding government installations. Reported obligations for Operation Enduring Freedom have ranged from \$10.3 billion to about \$32.0 billion each fiscal year since 2003. Recent increases in reported obligations for Operation Enduring Freedom are in

part caused by higher troop levels in Afghanistan, the costs associated with training Afghan security forces, and the need to repair and replace equipment after several years of ongoing operations.

**Figure 2: DOD's Reported Overseas Contingency Operations Obligations for Fiscal Years 2001 through 2008 by Operation**

Dollars (in billions)



Source: GAO analysis of DOD data.

Notes: Operation Iraqi Freedom began in fiscal year 2003; therefore no obligations were reported in fiscal years 2001 and 2002 for this operation. Reported OCO obligations generally reflect costs reported in DOD's cost-of-war reports. However, the fiscal year 2002 and 2003 figures include about \$20.1 billion that according to DOD officials was war-related but not reported in DOD's cost-of-war reports. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of OCO obligations.

In fiscal year 2009, through March 2009, DOD reported obligations of about \$59.6 billion, which are about one third of the total amount of obligation it reported for all of fiscal year 2008. Reported obligations for Operation Iraqi Freedom for the same period continue to account for the largest portion of total reported OCO obligations by operation—about \$45.3 billion. In contrast, reported obligations associated with Operation Enduring Freedom total about \$14.2 billion, and reported obligations associated with Operation Noble Eagle total about \$88.5 million.

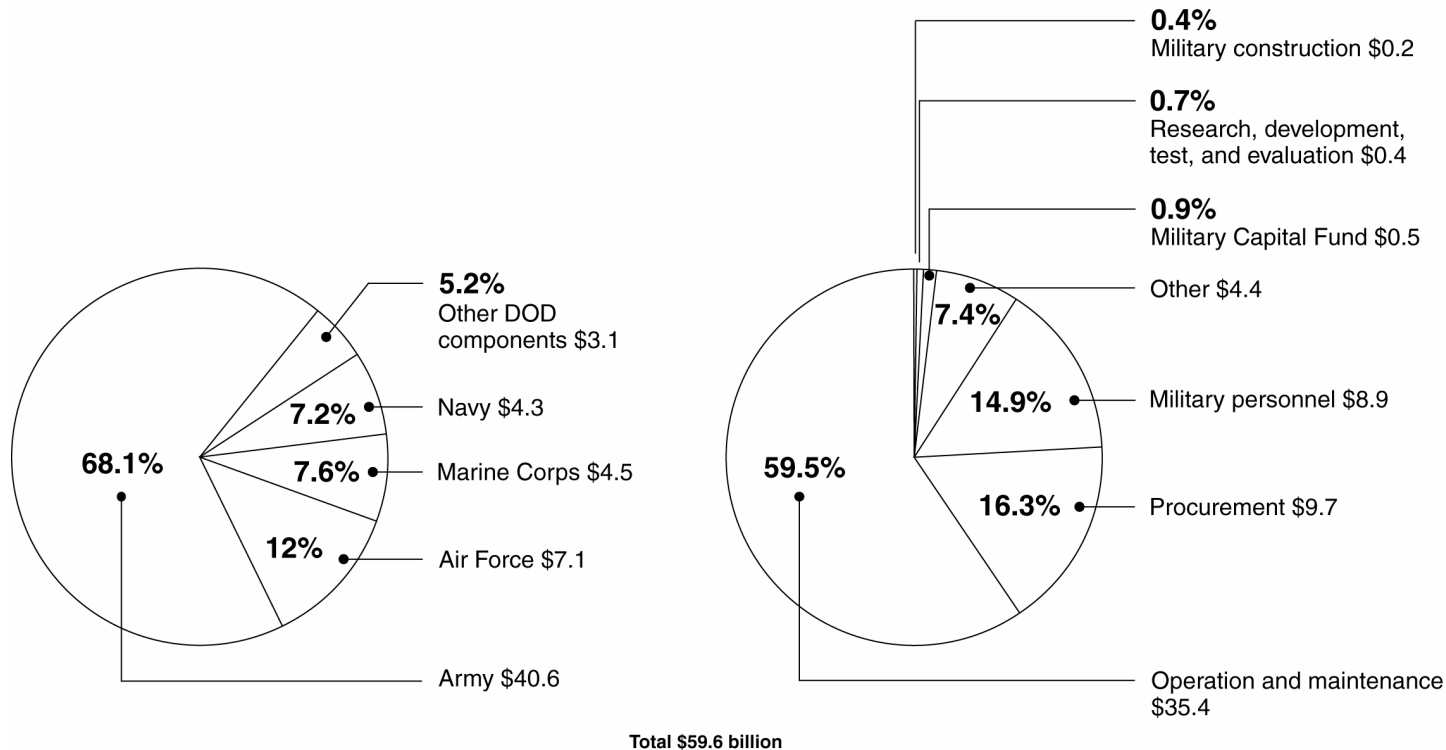
The Army accounts for the largest portion of reported obligations for fiscal year 2009 through March 2009—about \$40.6 billion, more than 5.5 times higher than the almost \$7.1 billion in obligations reported for the Air Force, the military service with the next greatest reported amount. Among appropriation accounts, operation and maintenance, which includes items such as support for housing, food, and services; the repair of equipment; and transportation to move people, supplies, and equipment, accounts for the largest reported obligations—about \$35.4 billion. Reported obligations for the procurement account represent about 16.3 percent of reported obligations or about \$9.7 billion.

Figure 3 shows DOD's reported obligations for fiscal year 2009 for October 2008 through March 2009 by DOD component and appropriation account.

**Figure 3: DOD's Reported Overseas Contingency Operations Obligations for Fiscal Year 2009, by DOD Component and Appropriation Account, as of March 2009**

By DOD component (dollars in billions)

By appropriation account (dollars in billions)



Source: GAO analysis of DOD data.

Notes: Totals may not add due to rounding. The "Other" portion of the appropriation account pie chart includes programs designed to reimburse coalition countries for logistical and military support, to train and equip the Afghan National Army and Armed Forces of Iraq, and to execute the Commanders Emergency Response Program. GAO has assessed the reliability of DOD's obligation data and found significant problems, such that these data may not accurately reflect the true dollar value of OCO obligations.

### Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD noted our report stated that the Department has started several initiatives to improve the credibility, transparency, and timeliness of cost of war reporting and mentioned the deployment of the Contingency Operations Reporting and Analysis Service system. According to DOD, this is a web-based system that will allow the Department to move away from a manual/email template methodology of collecting cost data to extracting a portion of the data from various accounting systems. As the Department requested, we have included this information in the report. DOD's comments are reprinted in Enclosure 1.

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We are sending copies of this report to interested congressional committees; the Secretary of Defense; the Under Secretary of Defense (Comptroller); and the Director, Office of Management and Budget. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.



If you or your staff have any questions about this report, please contact me at (202) 512-9619 or pickups@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in enclosure II.

A handwritten signature in black ink that reads "Sharon L. Pickup". The signature is written in a cursive, flowing style.

Sharon L. Pickup  
Director, Defense Capabilities and Management

Enclosures - 2

*List of Committees*

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The Honorable John McCain  
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United States Senate

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Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
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WASHINGTON, DC 20301-1100

JUL 7 2009

Ms. Sharon L. Pickup  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Ms. Pickup:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-09-791R, "Overseas Contingency Operations: *Reported Obligations for the Department of Defense*," dated June 18, 2009, (GAO Code 351346).

As you note in your report, the Department has instituted several initiatives to improve the credibility, transparency, and timeliness of cost of war reporting. One of these is the deployment of the Contingency Operations Reporting and Analysis Service (CORAS) system. The web-based CORAS system enables the Department to move away from a manual/email template methodology of collecting cost data to extracting a portion of the data from various accounting systems. I would request that you include the CORAS system in your discussion of improvements in transparency, credibility, and reliability. Thank you for your continued work with the Department of Defense on cost of war reporting.

Sincerely,

A handwritten signature in cursive script, reading "Robert F. Hale", is positioned above the printed name.

Robert F. Hale

Enclosure II

**GAO Contact and Staff Acknowledgments**

**GAO Contact**

Sharon Pickup, (202) 512-9619 or pickups@gao.gov

**Acknowledgments**

In addition to the contact named above, Ann Borseth, Assistant Director; Bruce Brown; Ron La Due Lake; Lonnie McAllister; and Sara Cradic made key contributions to this report.

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